

1989-1990 ANNUAL FINANCIAL REVIEW

*The Annual Report
of the
Supermarket Companies*

Conducted for:
The Research Department
Food Marketing Institute
1750 K Street N.W.
Washington DC 20006

by: Gerke & Associates, Inc.

Financial data collected by:
Williams-Keepers
Certified Public Accountants and Consultants

Price:
FMI Members \$15.00
Nonmembers \$30.00

Copyright © 1990
by Food Marketing Institute
Printed in U.S.A.

The Food Marketing Institute (FMI) is a nonprofit association conducting programs in research, education and public affairs on behalf of its 1,600 members — food retailers and wholesalers and their customers in the United States and around the world. FMI's domestic member companies operate approximately 19,000 retail food stores with a combined annual sales volume of \$180 billion — more than half of all grocery sales in the United States. FMI's retail membership is composed of large multi-store chains, small regional firms and independent supermarkets. Its international membership includes more than 210 members from over 55 nations.

CONTENTS

<i>Executive Summary</i>	1
--------------------------	---

<i>Key Financial Results</i>	2
------------------------------	---

<i>Key Financial Ratios</i>	3
-----------------------------	---

- Net Profit Margin
- Return on Total Assets
- Return on Equity
- Asset Turnover
- Current Ratio
- Quick Ratio
- Debt to Equity
- Times Interest Earned

<i>Key Financial Ratios by Company Size</i>	6
---	---

- Net Profit Margin
- Return on Total Assets
- Return on Equity

<i>Tax Rates</i>	8
------------------	---

- Income Taxes
- Wage-Based Taxes

<i>Financial Statements</i>	9
-----------------------------	---

- Income Statement
- Balance Sheet
- Consolidated Statement of Cash Flows
- Statement of Changes in Shareholder Equity

<i>Appendix</i>	18
-----------------	----

- Changes in Accounting Rules
- Impact of the Tax Reform Act of 1986
- The U.S. Economic Environment
- Definitions
- Methodology

EXECUTIVE SUMMARY

Although the company restructurings of the 1980s still color the industry's financial picture, their influence is beginning to fade, according to the 1989-90 *Annual Financial Review* (the *Review*).

After bottoming out at 0.71 percent of sales in 1988-89, the industry's net profit rebounded to 0.86 percent. One reason for the improvement: the industry reported the highest operating income (2.45 percent of sales) since 1983-84. Small and mid-sized companies in particular reported stronger profits in 1989-90. The increase in profitability is testimony to the industry's efficiency as it labored under the highest interest expenses ever reported: 1.33 percent of sales.

Several key financial ratios also showed improvement in 1989-90.

- After declining for three straight years, return on assets (ROA) climbed to 3.68 percent from 2.65 percent reported in 1988-89.
- The debt to equity ratio was 4.10 in 1989-90 after topping out at 4.54 in 1988-89. This is still well above the results of previous years (2.27 in 1986-87, for example).
- Times interest earned also moved in a positive direction, increasing to 2.08 times compared with 1.98 times in 1988-89, still below the level of earlier years, such as 3.84 times in 1986-87.

Total liabilities as a percentage of total assets remained nearly unchanged at 80.40 percent, compared with 81.95 percent in 1988-89. The savings from mortgages and bank loans were offset by increases in other forms of debt, such as bonds and debentures.

The industry's return on equity (ROE) grew to 19.55 percent, the highest ever. This offers a mixed message. On one hand, it reflects the stronger profits reported this year, especially by small and mid-sized companies. On the other hand, it reflects the widespread shift from equity financing to debt financing in the past two years.

This year's *Review* features a new section, a Consolidated Statement of Cash Flows. The survey results showed that much of the cash from operations was used to purchase plant, property and equipment. The analysis indicates that cash at the end of 1989-90 was about 10 percent less than cash available at the beginning of the year.

Another new feature, a Statement of Changes in Stockholder Equity, further explains some of the figures in the equity portion of the balance sheet. Stockholder equity increased 13.49 percent in 1989-90, mostly from net income. Stock as a proportion of equity decreased, while retained earnings were higher.

The *Review* is designed to promote a better understanding of the economics of the supermarket industry. Food Marketing Institute (FMI) has been tracking the industry's financial performance for the past 17 years.

The *Review* was conducted for FMI by Gerke & Associates, Inc. Information was gathered from an extensive mail survey and public financial reports, covering 133 companies operating 12,287 supermarkets.

KEY FINANCIAL RESULTS

After-tax income rebounded in 1989-90 to 0.86 percent of sales, from 0.71 percent in 1988-89, as increases in operating income and other income helped offset continuing record high interest expenses. Still, this was the third straight year that supermarket firms earned less than 1 cent on the dollar — and significantly below the decade high of 1.19 cents in 1985-86.

Return on assets (ROA) increased in 1989-90 due to improved profits and asset turnover. After declining for three straight years, ROA jumped from 2.65 percent in 1988-89 to 3.68 percent in 1989-90. This remains well below the levels earlier in the decade, when the figure ranged from 5-6 percent.

Return on equity (ROE) reached its highest level ever, caused largely by the widespread shift from equity financing to debt financing in the past two years. This decreased considerably the denominator of this ratio, equity. As a result the ROE for the industry remained high despite low profits.

The industry's asset turnover recovered after a drop in 1988-89. The 1989-90 ratio of 4.28 times is more in line with previous years' results. The low value in 1988-89 probably occurred because many companies going through financial restructuring increased the book value of fixed assets. This resulted in a larger asset base supporting industry sales.

The industry's liquidity ratios (quick and current) declined only slightly from 1988-89, continuing the stability exhibited over the past five years.

The key financing ratio, debt to equity, remained high in 1989-90, reflecting the leveraged state of the industry. Although 1989-90's 4.10 is down from the previous year's 4.54, it is still well above the figures reported in earlier years. For example, the 1984-85 ratio was 1.73.

The industry's ability to cover interest payments changed little (2.08 times interest earned versus 1.98 in 1988-89). This ratio has declined considerably since the 4.35 times recorded in 1985-86, a change linked to the increase in debt financing.

The following pages illustrate the industry's financial ratios for the past five fiscal years. An explanation of each ratio is provided.

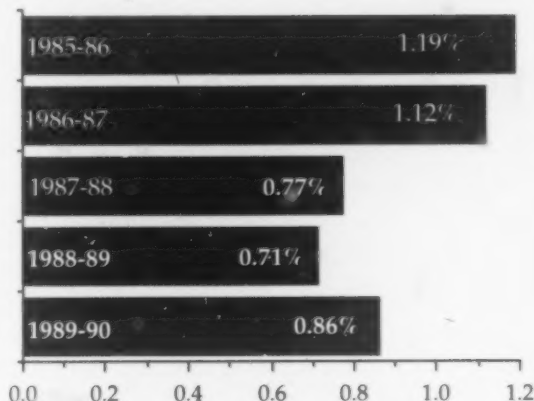
KEY FINANCIAL RATIOS

Net profit margin: net income after taxes as a percentage of sales. It measures the portion of the firm's sales dollar that is left after paying all expenses, including the cost of the products as well as the realization of any extraordinary gains or losses.

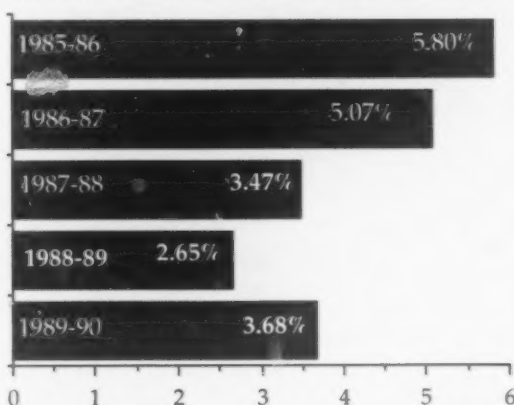
Return on total assets (ROA): net income after taxes as a percentage of total assets. It measures the ability of a company's combined equity capital and debt securities to generate profits. Return on assets reflects the profit generated from the firm's asset base regardless of how it is financed.

Return on equity (ROE): net income after taxes as a percentage of owner's equity. This relates the earnings of the company specifically to the resources provided by its owners. It reflects the effectiveness of the firm in employing leverage, i.e., funds acquired from outsiders by issuing debt securities.

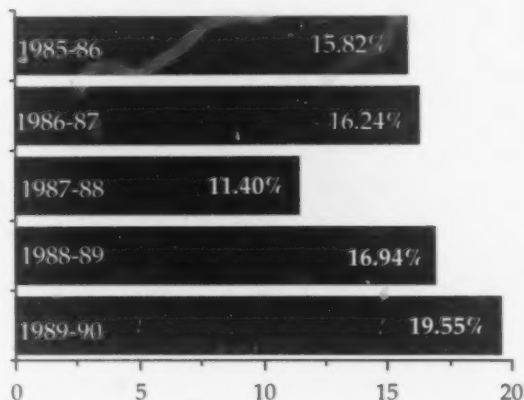
Net Profit



Return on Total Assets

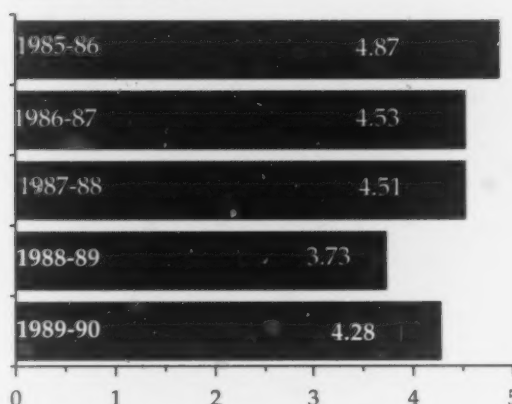


Return on Equity



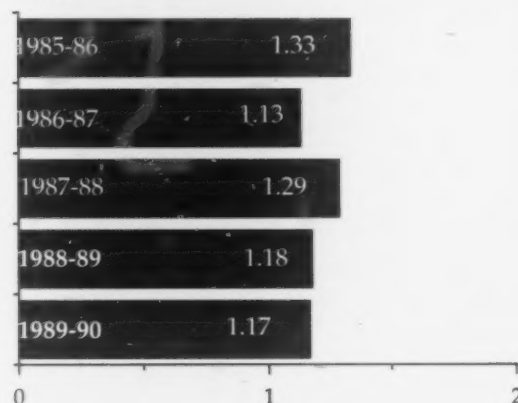
Asset turnover: ratio of total assets into net sales. This measures the firm's ability to use its assets to generate sales.

Asset Turnover



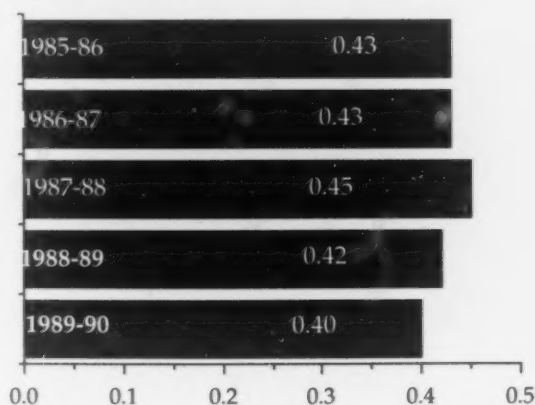
Current ratio: the relationship of current assets to current liabilities. It indicates the ability of a company to meet its current obligations. Included in the computation are such current assets as cash, accounts receivable, total inventory investment in marketable securities, and other current assets. Current liabilities are: accounts payable, mortgages, notes and bonds payable in less than one year, income taxes payable, and other current liabilities.

Current Ratio



Quick ratio: the relationship of cash, current receivables and marketable securities to current liabilities. It indicates a company's ability to discharge its current obligations without the need to sell off inventories. The calculation is current assets less inventory divided by current liabilities.

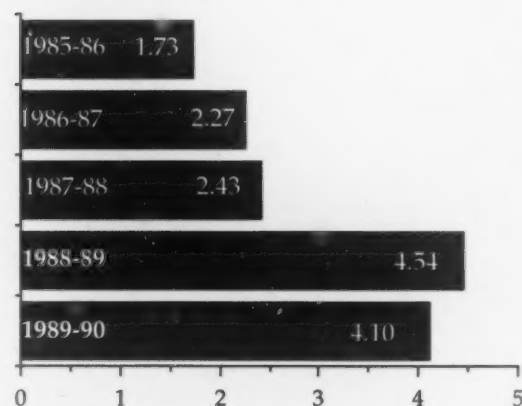
Quick Ratio



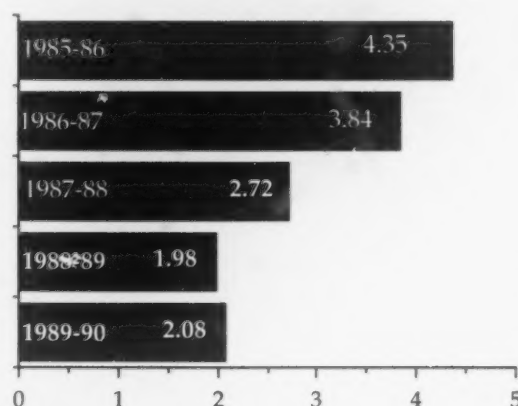
Debt to equity: indicates the degree of dependence on creditors, rather than owners, in providing funds for operating the business or, in short, the amount of "trading on the equity." Total liabilities include the items noted above in current liabilities; plus loans from banks, mortgages, notes and bonds payable in one year or more; capitalized lease obligations; and other non-current liabilities. Total equity consists of capital stock (common and preferred), paid-in capital surplus and retained earnings, less cost of treasury stock.

Times interest earned: the ratio of interest paid into net income before both income taxes and interest paid. The ratio indicates the firm's ability to cover long-term indebtedness. If the number of times interest earned is sufficient, the firm should be able to fulfill its interest obligations.

Debt to Equity



Times Interest Earned



KEY FINANCIAL RATIOS BY COMPANY SIZE

Profit ratios were calculated for three categories of company size based on annual sales.

Less than \$50 million: small companies
\$50 - \$500 million: mid-sized companies
More than \$500 million: large companies

The profit margins for small and mid-sized firms were strong in the most recent year. The net profits for mid-size firms have shown a continual upward trend over the last three years from 0.67 percent to 1.08 percent to 1.55 percent in 1989-90. Of course, changes in the survey sample can affect the results as the sample size varies somewhat each year, in particular for small and mid-sized firms.

The profitability of the largest firms remained close to the level of the last two years.

The return on total assets and return on equity improved substantially for small and mid-sized firms as profits rose. Returns for the larger firms changed slightly from the previous year.

Key Financial Ratios By Company Size

Net Profit:

Net profit After Taxes and Extraordinary Items as a Percentage of Sales

	1985-86	1986-87	1987-88	1988-89	1989-90
Sales Under \$50 Million	1.01%	0.76%	0.79%	0.75%	1.37%
Sales of \$50-\$500 Million	0.81%	0.90%	0.67%	1.08%	1.55%
Sales of Over \$500 Million	1.32%	1.13%	0.79%	0.78%	0.79%

Return on Total Assets:

Net Profit After Taxes as a Percentage of Total Assets

	1985-86	1986-87	1987-88	1988-89	1989-90
Sales Under \$50 Million	6.90%	4.94%	5.15%	3.65%	8.12%
Sales of \$50-\$500 Million	3.86%	3.91%	3.46%	4.49%	7.24%
Sales of Over \$500 Million	5.72%	4.12%	2.95%	2.53%	2.78%

Return on Equity:

Net Profit After Taxes as a Percentage of Equity

	1985-86	1986-87	1987-88	1988-89	1989-90
Sales Under \$50 Million	19.54%	16.25%	13.05%	10.95%	17.83%
Sales of \$50-\$500 Million	10.24%	11.90%	9.69%	14.49%	17.89%
Sales of Over \$500 Million	15.78%	14.81%	11.18%	21.01%	20.73%

TAX RATES

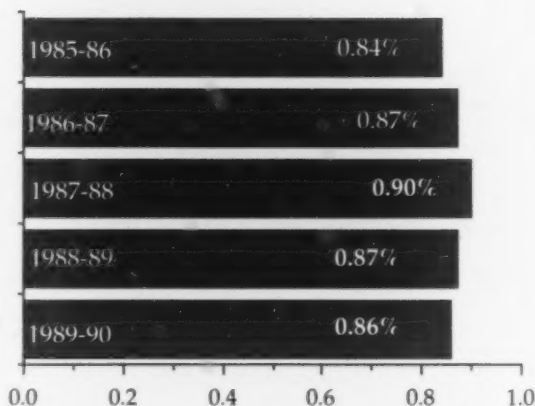
Income Tax

The supermarket industry's effective income tax rate (including federal, state and local income taxes) averaged 38 percent in 1989-90 — comparable to the 39 percent experienced in the prior year. This continues a gradual downward trend beginning in 1987-88 when effects the Tax Reform Act (TRA) of 1986 were first reflected in the industry's financial statements. Earlier in the decade, the industry experienced an effective tax rate of over 40 percent.

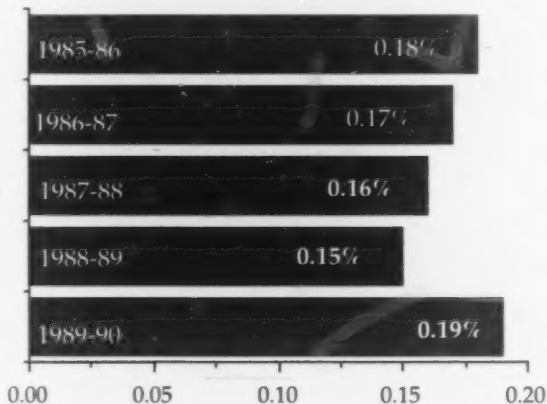
Wage Based Taxes

Wage based taxes have become a significant cost to the supermarket business. In 1989-90, supermarket employers' FICA tax payments (social security) averaged 0.86 percent of sales, comparable to the 0.87 reported in 1988-89. It equals the net income margin of the industry for 1989-90. Unemployment tax payments increased to 0.19 percent of sales.

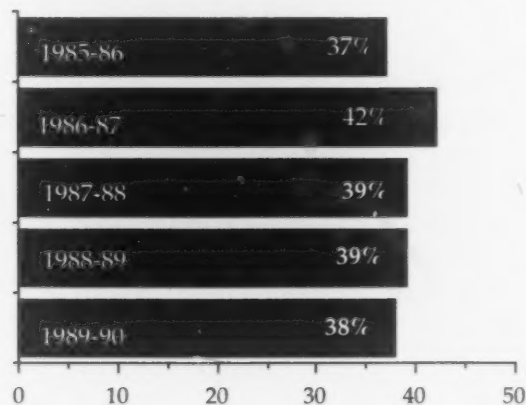
FICA Tax Payments as a Percentage of Sales



Unemployment Compensation Taxes as a Percentage of Sales



Effective Tax Rate



FINANCIAL STATEMENTS

Income Statement

After years of mergers, leveraged buyouts and extraordinary items, the 1989-90 income statement suggests that the financial waters in the supermarket industry are beginning to settle.

Sales and operating expenses dropped almost half a percentage point from 1988-89 to the lowest level in six years. This raised operating income to 2.45 percent, from 1.99 percent. The category "other income" (i.e., all non-operating income) also increased, helping the net profit figure.

Interest expenses continued to climb to record highs. The 1989-90 expense of 1.33 percent is almost three times the 0.46 percent paid in 1983-84. These expenses crept up each year through 1986-87, then registered large jumps from the interest costs of industry restructurings. These high interest expenses offset somewhat the increase in operating profitability.

Net income before taxes and extraordinary items was 1.43 percent, up substantially from 1988-89. Nevertheless, it has not returned to the levels reported in the years before financial restructurings when net income ranged between 1.70 and 1.84 percent.

As net income increased, so did income taxes to 0.54 percent of sales in 1989-90 compared with 0.43 percent in 1988-89. Again, although this number rebounded, it is still much lower than the figures reported in the mid-1980s.

The final category, extraordinary items, posted a loss in 1989-90. In previous years (with the exception of 1987-88) extraordinary gains brightened the industry profit picture.

Balance Sheet

Assets

Current assets as a percentage of total assets was nearly identical over the last two years (40.42 percent in 1989-90 vs. 40.47 percent in 1988-89). These percentages are lower than those reported earlier in the 1980s. For example, current assets as a percentage of total assets was almost 49 percent in 1983-84. One interesting development, cash as a percentage of total assets decreased for the third straight year.

Total net property and equipment as a percentage of total assets rose for the third straight year even as one major component, the value of buildings, decreased. One explanation: the industry is building fewer new stores, concentrating instead on remodeling existing ones. The percentage of stores remodeled was at least double the percentage of constructed stores from 1985 through 1989 according to FMI's *Facts About Store Development*. The fact the 1989-90 results show significant gains in fixtures, equipment and leasehold improvements over the previous period also indicates the industry is emphasizing improvements in its existing buildings.

Liabilities and Equity

The other side of the balance sheet remained nearly as stable as the assets. Total liabilities declined to 80.40 percent of total assets from 81.95 percent in 1988-89. As the industry paid off long-term debt, such as bank loans and mortgages, it increased other liabilities. Bonds and debentures, for example, reached an all-time high of 10.89 percent.

Retained earnings were the primary beneficiary of reduced liabilities. This year's 13.47 percent reverses a downward trend when retained earnings declined from 22.59 percent in 1987-88 to 11.81 percent in 1988-89. In another area of equity, a significant amount of preferred stock was taken off the books in 1988-89.

Consolidated Statement of Cash Flows

This year's *Review* is the first to include a Consolidated Statement of Cash Flows.

In 1987, the Financial Accounting Standards Board (FASB) issued Standard No. 95, which requires businesses to provide financial statements reporting both the financial position and the cash flow for each period for which results of operations are provided. The FASB required that firms classify cash receipts and payments by operating, financing and investing activities. This statement is an important analytical tool in assessing the industry's short-term liquidity, long-term solvency and operating performance.

The figures in the Statement of Cash Flows are presented as a percentage of total cash at the beginning of the year. During 1989-90, operating activities generated a positive cash flow. Net income and depreciation provided the bulk of the cash (81.68 percent and 163.53 percent respectively). The increase in accounts payable (43.27 percent) was more than offset by an increase in inventory (54.69 percent).

Much of the cash flow from operations was used to purchase plant, property and equipment. Also in 1989-90, the industry experienced only a slight increase in debt obligations.

In summary, the operating activities provided the industry with the equivalent of 285.67 percent of the cash it had available at the beginning of the year, while investing and financing activities used the equivalent of 295.34 percent. The net result: the industry ended the fiscal year with 10 percent less cash than it had at the beginning.

Statement of Changes in Stockholder Equity

This year's *Review* also includes a Statement of Changes in Stockholder Equity for the first time. These data show how stockholder equity changed during the year and what caused it to change, further explaining some of the figures in the equity portion of the balance sheet. The data are presented as a percentage of total stockholder equity at the beginning of the year.

Stockholder equity increased 13.49 percent in 1989-90, most of it from net income and some from paid-in capital.

Dividends accounted for 3.42 percent of beginning equity and 23.51 percent of net income for 1989-90.

Several key changes appear when comparing the equity structure at the beginning and end of the year: the percentage of stock (preferred, common, treasury) decreased, while retained earnings increased.

Income Statement

Income Statement for Supermarket Companies (In Percentages; Sales = 100%)

	1985-86	1986-87*	1987-88*	1988-89*	1989-90*
Sales	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Sales and Operating Expenses	97.84	97.86	98.01	98.01	97.55
Operating Income	2.16	2.14	1.99	1.99	2.45
Interest Expenses	0.55	0.61	0.87	1.13	1.33
Other Income	0.23	0.20	0.38	0.25	0.31
Income Before Taxes and Extraordinary Items	1.84	1.73	1.50	1.11	1.43
Total Taxes on Income	0.68	0.74	0.59	0.43	0.54
Extraordinary Items (Net)	0.03	0.13	(0.14)	0.03	(0.03)
Net Income	1.19%	1.12%	0.77%	0.71%	0.86%

* The financial restructuring of certain large retailers had a significant impact on the financial data in these years.

Balance Sheets

End-of-Year Balance Sheet for Supermarket Companies (In Percentages; Total Assets = 100%)

	1985-86	1986-87*	1987-88*	1988-89*	1989-90*
Current Assets					
Cash	5.17%	5.66%	5.10%	4.93%	4.77%
Accounts Receivable	3.91	4.24	3.67	4.07	4.41
Marketable Securities	2.76	3.52	2.32	1.70	1.77
Inventory (Note A)	31.92	27.35	30.95	26.01	26.69
Other Current Assets	3.45	3.16	5.28	3.76	2.78
Total Current Assets	47.21	43.93	47.32	40.47	40.42
Property and Equipment (Note B)					
Land	3.92	3.59	3.74	4.19	4.30
Buildings	18.79	20.95	19.17	18.47	16.65
Fixtures and Equipment	47.88	38.56	40.71	38.94	41.11
Leasehold Improvements	9.77	10.73	9.36	9.92	10.89
Total Property and Equipment	80.36	73.83	72.98	71.52	72.95
Reserves for Depreciation	(33.93)	(30.94)	(29.50)	(26.48)	(27.01)
Net Property and Equipment	46.43	42.89	43.48	45.04	45.94
Other Assets	6.36	13.18	9.20	14.49	13.64
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%

Note A: Some firms value at least part of their inventory on a LIFO (last-in, first-out) basis.

Note B: Property under capitalized leases is included in the appropriate property categories based on the type of property leased.

* The financial restructuring of certain large retailers had a significant impact on the financial data in these years.

End-of-Year Balance Sheet for Supermarket Companies (In Percentages; Total Assets = 100%)

Current Liabilities	1985-86	1986-87*	1987-88*	1988-89*	1989-90*
Notes Payable	2.71%	5.25%	4.63%	5.33%	4.56%
Accounts Payable	21.63	19.00	18.38	18.92	19.46
Income Taxes Payable	1.48	1.69	0.85	0.86	0.88
Other Current Liabilities	9.78	12.97	12.76	9.08	9.61
Total Current Liabilities	35.60	38.81	36.62	34.19	34.51
Long-Term Debt					
Mortgages	6.11	10.07	6.69	7.49	7.07
Bank Loans	6.95	5.18	7.45	18.32	15.96
Bonds and Debentures	3.37	4.37	8.18	10.54	10.89
Capitalized Lease Obligations	5.90	5.36	5.39	5.01	5.37
Other Non-Current Liabilities	2.61	2.41	2.33	2.95	3.28
Total Long-Term Debt	24.94	27.39	30.04	44.31	42.57
Deferred Liabilities	2.83	3.19	4.22	3.45	3.32
TOTAL LIABILITIES	63.37	69.38	70.88	81.95	80.40
EQUITY					
Common Stock Outstanding or Proprietorship	3.95	3.74	3.44	2.48	2.48
Preferred Stock Outstanding	0.77	1.77	1.25	1.34	0.68
Paid-in Surplus	4.87	4.27	4.65	4.45	4.65
Retained	28.87	24.39	22.59	11.81	13.47
Treasury Stock	(1.83)	(2.95)	(2.81)	(2.03)	(1.67)
TOTAL EQUITY	36.63	30.62	29.12	18.05	19.60
TOTAL LIABILITIES AND EQUITY	100.00%	100.00%	100.00%	100.00%	100.00%

* The financial restructuring of certain large retailers had a significant impact on the financial data in these years.

Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows for Supermarket Companies
(In Percentages; Cash at Beginning of Year = 100%)

CASH FLOWS FROM OPERATING ACTIVITIES	1989-90
Net Income	81.68 %
Adjustments to reconcile net income to net cash provided by operations	
Depreciation and Amortization	163.53
Deferred Income Tax	0.65
Other Adjustments	22.19
(Increase) decrease in:	
Trade Accounts Receivable	(10.23)
Inventories	(54.69)
Prepaid Expenses	1.11
Other Current Assets	8.84
Increase (decrease) in:	
Trade Accounts Payable	43.27
Accrued Expenses	18.43
Income Taxes Payable	4.79
Other Current Liabilities	6.10
NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES	285.67 %

Consolidated Statement of Cash Flows for Supermarket Companies
(In Percentages; Cash at Beginning of Year = 100%)

CASH FLOWS FROM INVESTING ACTIVITIES 1989-90

Net Sales (Purchase) of Plant, Property and Equipment (222.65)%

Net Sale (Purchase) of Investment (28.25)

Other Investing Activities 8.44

NET CASH PROVIDED BY (USED BY) INVESTING ACTIVITIES (242.46)

CASH FLOW FROM FINANCING ACTIVITIES

Increase (Decrease) in Short-term Borrowing 9.39

Increase (Decrease) in Long-term Debt 15.21

Increase (Decrease) of Capital Lease Obligations (14.14)

Proceeds From Issuing (Purchase) of Common Stock 8.21

Dividends Paid (29.98)

Other Financing Activities (41.57)

NET CASH PROVIDED BY (USED BY) FINANCING ACTIVITIES (52.88)

NET INCREASE (DECREASE) IN CASH (9.67)

CASH AT BEGINNING OF YEAR 100.00

CASH AT END OF YEAR 90.33%

Statement of Changes in Stockholders' Equity

Statement of Changes in Stockholders' Equity for Supermarket Companies
(In Percentages; Total Stockholders' Equity at Beginning of Year = 100%)

Beginning of Year	1989-90
Preferred Stock	1.81%
Common Stock	15.81
Additional Paid-In Capital	36.59
Retained Earnings	47.50
Treasury Stock	(2.29)
Other	0.58
Total Stockholder Equity	100.00
Changes During Year	
Preferred Stock	(0.49)
Common Stock	0.31
Additional Paid-In Capital	3.76
Net Income	14.55
Dividends	(3.42)
Treasury Stock	0.41
Other	(1.63)%

Statement of Changes in Stockholders' Equity for Supermarket Companies
(In Percentages; Total Stockholders' Equity at Beginning of Year = 100%)

End of Year Balance	1989-90	Percentage of Equity at End of Year
Preferred Stock	1.32%	1.16%
Common Stock	16.12	14.20
Additional Paid-In Capital	40.35	35.56
Retained Earnings	57.28	50.47
Treasury Stock	(1.88)	(1.65)
Other	0.30	0.26
Total Stockholder Equity	113.49%	100.00%

APPENDIX

Changes in Accounting Rules

Some of the data in this *Review* were affected by major accounting changes. In December 1987, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting (SFAS) No. 96 "Accounting for Income Taxes". SFAS No. 96 changed the manner in which deferred taxes are recognized within financial statement, causing changes in the utilization of net operating loss carry forwards which are recorded as extraordinary items. Eleven percent of the companies responding to this survey implemented SFAS No. 96 for the fiscal year 1989-90.

The FASB also instituted a rule regarding subsidiaries of corporations. SFAS No. 94 requires a parent company to include in its financial statements on a consolidated basis all investments in which the company has at least a majority voting interest (more than 50 percent). Three percent of the firms surveyed for this year's *Review* included previously unconsolidated subsidiaries in their financial statements because of SFAS No. 94.

Impact of the Tax Reform Act of 1986

The sweeping changes of the Tax Reform Act (TRA) of 1986 have had many ramifications for the supermarket industry. Prior to the TRA the top corporate tax rate was 46 percent. This dropped to 34 percent in 1988. The old and new rates were blended in 1987. Forty-three percent of the respondents in this year's *Review* indicated that lower tax rates had a favorable impact on company profits in the past fiscal year.

The U.S. Economic Environment

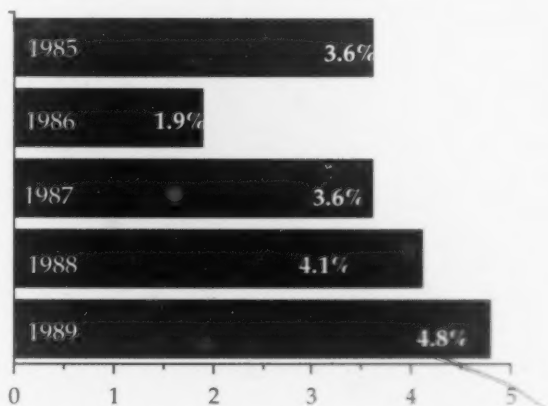
The U.S. economy entered its seventh straight year of expansion in 1989, a peacetime record. However, the rate of economic growth slowed, as measured by the Gross National Product (GNP).

The U.S. unemployment rate reached 5.3 percent in 1989 (the lowest level since 1973), which added to the human resources pressure on the industry.

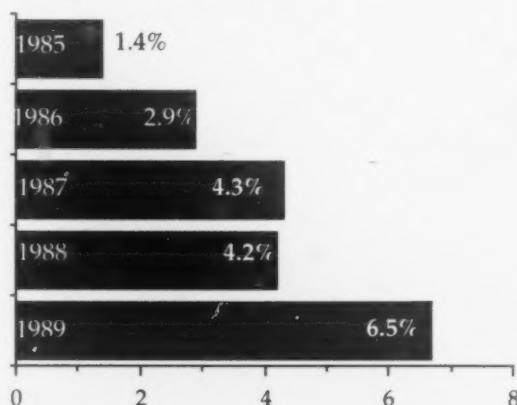
Inflation began to climb in 1989, reaching its highest level since 1981. The 4.8 percent inflation rate as measured by the Consumer Price Index (CPI) was fueled mainly by higher food and energy costs. Consumer food and energy prices rose sharply in the early part of the year owing to the 1988 drought and weather damage to crops in some southern states. Costs for food-at-home rose 6.5 percent.

The annualized prime rate during 1989 was 10.9 percent, which was 1.6 percent higher than the 1988 rate and, in fact, the highest average rate over the last five years. The increased borrowing costs may have been a factor in reducing the number of mergers and acquisitions, along with turmoil in the "junk bond" marketplace.

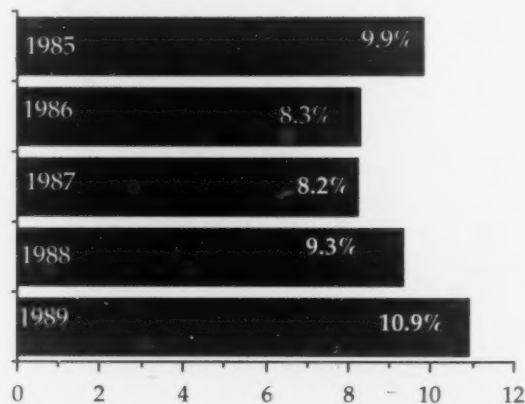
CPI for All Urban Consumers



CPI for Food at Home



Interest Rates

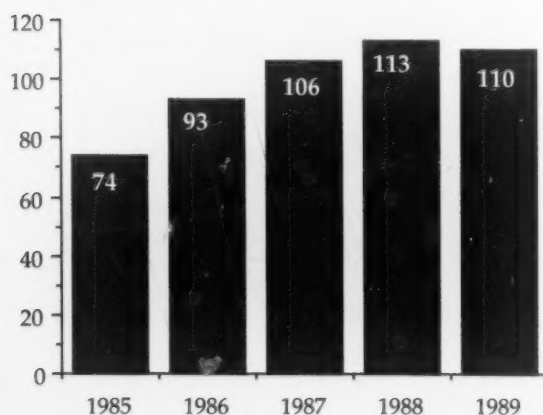


The stock market showed strength in 1989, climbing 21 percent over the 1988 average, as measured by the Dow Jones Industrial Average (DJIA). Corporate profits, however, were down compared with the previous year.

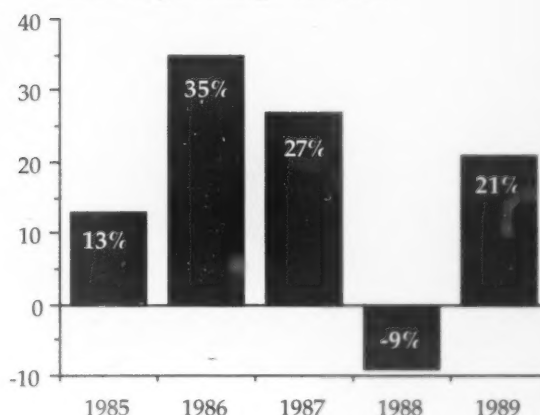
Yields on long-term government bonds averaged 8.3 percent in 1989, about half percent less than the previous year. Such yields have stayed within a fairly narrow range (about 1 percent) over the last four years, indicating that the financial community expects fairly stable inflation rates and economic stability in general.

In 1989 the U.S. dollar improved slightly against the currencies of the six other major industrial countries. This meant that U.S. products, services and assets became more expensive for foreigners to buy. It marked the first year since 1984 that the average of these key foreign currencies fell against the U.S. dollar.

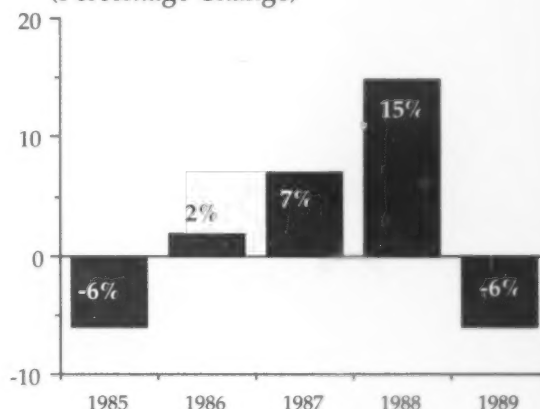
Average of the Currencies of the Six Major Industrial Countries vs. the U.S. Dollar (1977=100)



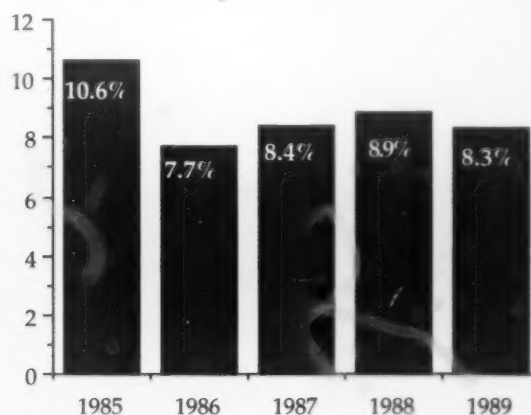
Stock Market Performance
(Percentage Change in DJIA)



Corporate Profits
(Percentage Change)



Average Yield of Long-term U.S. Treasury Bonds



Definitions

Selected Income Statement Captions

Sales represent all sales reported by supermarket companies. Cost of Sales and Operating Expenses includes the cost of merchandise sold by supermarkets plus all other expenses of operating the stores, distribution facilities and the central office.

Interest expense includes all interest charges on short- or long-term debt and on capital lease obligations.

Other income includes all non-operating income (e.g., interest income, gain on sales of securities).

Total taxes on income are the federal and states taxes imposed on the supermarket companies based on net income as reported to the government.

Extraordinary items include all financial events that occur infrequently and are unusual in nature, including the realization net operating loss carryforwards utilized in the current period.

Selected Balance Sheet Captions

Inventory includes all goods held for sale by supermarket companies. Some firms value inventories on a first-in, first-out basis (FIFO). Others use a last-in, first-out basis (LIFO) valuation. For the *Review*, the inventories are recorded as reported by the surveyed companies.

Other current assets include all assets (except inventory) with a defined life of less than one year (e.g., cash, accounts receivable, prepaid expenses, short-term investments).

Net property and equipment covers all property, plant and equipment, including capital leases less accumulated depreciation and amortization.

Other assets include all assets (except property and equipment) with a defined life of greater than one year (e.g., investments in other companies, long-term receivables).

Current liabilities include all debts and expenses due within one year (e.g., accounts payable, accrued liabilities, current portions of long-term debt).

Long-term liabilities include all debt and expenses due after one year (e.g., long-term debt, capital lease obligations, deferred taxes). Equity is the difference between total assets and total liabilities. It typically comprises stock, paid-in surplus, retained earnings less treasury stock.

Methodology

The *Review* was developed from two primary sources of data: a survey mailed to the FMI members and annual reports filed with the Securities and Exchange Commission (SEC) on FORM 10-K.

For 1989-90 much of the financial data were supplied by the companies that responded to the survey. Data were not used for any company with sales of less than \$2 million per store. Only firms with at least 50 percent of revenues generated from supermarket operations were included in the sample.

Data for several large publicly traded companies were obtained from annual reports filed with the SEC. In all, data were collected from 133 companies that operated 12,287 supermarkets. These firms accounted for sales of \$151 billion. The sample included 55 companies with sales of less than \$50 million, 35 companies with sales of \$50-\$500 million and 43 with sales of more than \$500 million.

The sample size in this survey varies from year to year, especially among the smaller firms. Some of the annual changes in the profitability may be due to a change in the companies responding to the survey.

The *Review* sampled supermarket companies. These companies may obtain some of their revenues from sources other than operating supermarkets. In the 1989-90 sample, the smaller companies (sales of less than \$50 million) generated 98.3 percent of their revenues through supermarkets. The mid-sized companies (\$50-\$500 million) generated 97.9 percent of their sales from supermarket operations. On average, the larger firms in the sample (more than \$500 million) generated 92.8 percent of their revenues from supermarkets.

Financial data were collected for company fiscal years ending between April 1, 1989 and March 31, 1990. In order to develop the industry averages, data from each respondent were weighted by the firm's annual sales. Means were calculated for each category and weighted using data from the 1987 Census of Retail Trade. The industry average is based on a weighted average of two groups, companies with sales less than \$100 million and companies with sales over \$100 million. The census data are shown in the table on the following page. The stratification and weighting of data help eliminate year-to-year changes that result from changes in the survey sample.

We believe this method of developing average financial estimates for supermarket companies provides the best published measurement of trends in the supermarket industry's capital structure. It does not, however, totally eliminate the problems of changes in sample size and varying fiscal year ending points inherent in a survey of this type.

The weightings from the Census of Retail Trade used to calculate the all-industry average are not reflected in the results for each of the annual sales categories. When calculating the averages for each of the annual sales breakouts, the individual data are weighted by companies' annual sales only.

Supermarket Population Based on 1987 Census of Retail Trade*

Firm Sales (millions)	Percentage of Total Firms	1987 Sales	Percentage of Total Sales
Less than \$100	97.3%	\$68,099,426	27.63%
\$100 and over	2.7%	\$178,409,579	72.37%
TOTAL	100.0%	\$246,509,005	100.00%

SOURCE: U.S. Census Bureau (latest available data)

Results for Annual Sales Categories Used in Weighting the All-industry Data

Firm Sales (millions)	Net Profit	Return on Total Assets	Return on Equity
Less than \$100	1.00%	5.76%	16.89%
\$100 and over	0.81%	2.89%	20.57%
Industry Average	0.86%	3.68%	19.55%

Business Building Publications

If you need data, facts or background information about key food distribution issues, FMI's research publications may be just what you're looking for. Call FMI Publication Sales Department, 202-452-8444 for information on how to order!

Consumer Attitudes

Trends: Consumer Attitudes & the Supermarket 1990

Price: \$25 (members)
\$50 (non-members)

The Green Shopping Revolution: How Solid Waste Issues are Affecting Consumer Behavior

Price: \$30 (members and non-members)

Dinnertime USA

An overview of the dining at home trend, what's in store for the '90s and how it may affect supermarkets.

Price: \$30 (members and non-members)

Food Patterns and Meal Consumption

A four-part study that looks at consumer trends such as meal consumption patterns, convenience and nutrition.

Price: \$7.50 each (members and non-members)

Targeting Food Customers

A comprehensive guide to using secondary research for the smaller to mid-size food retailer.

Price: \$25 (members)
\$50 (non-members)

Shopping a la Cart — the Changing Environment of the Takeout Food Market

Price: \$15 (members)
\$30 (non-members)

Financial Studies

Operating Results of Independent Supermarkets

Operating results for four types of stores— sales breakouts, labor, space, and inventory productivity and operating costs.

Price: \$25 (members)
\$50 (non-members)

Annual Financial Review

Contains an income statement and balance sheet for the supermarket industry, calculated on a percentage basis. Also includes key financial ratios and a discussion of the effects of legislative and regulatory requirements.

Price: \$15 (members)
\$30 (non-members)

Supermarket Financial Performance Study

Detailed study of costs involved in operating a supermarket chain plus operating results including productivity measures and financial data.

Price: \$25 (members)
\$50 (non-members)

Industry Performance

Food Marketing Industry Speaks 1990

Summary of results from five different surveys: retail and distribution center, operations, seafood departments, advertising and health-care issues.

Price: \$20 (members)
\$40 (non-members)

Detailed Tabulations from "Food Marketing Industry Speaks 1990"

Detailed results from the "Speaks" surveys. Data are delineated by company size, geographic region and other measures as appropriate.

Price: (Includes "Speaks" report)
\$25 (members)
\$50 (non-members)

Supermarket Pharmacies

Profiles trend data and new issues in pharmacy operations.

Price: \$10 (members)
\$20 (non-members)

Produce Retailing: Performance and Productivity

An overview of sales and profitability figures for produce departments.

Price: \$15 (members)
\$30 (non-members)

Strategic Management

Facts About Store Development 1990

This annual report examines new store costs and size, store formats, remodelings and rental and leasing arrangements.

Price: \$15 (members)
\$30 (non-members)

Management Compensation Study for Wholesalers and Large Retailers

This annual study provides the benchmarks needed to properly administer compensation programs.

Price: \$300 (members)
\$600 (non-members)

Looking for Employees: A Recruitment and Retention Guide

Includes several innovative recruitment and retention approaches used by food retailers and related service companies.

Price: \$15 (members)
\$30 (non-members)

Looking for Employees, Part II: Recruiting, Retaining and Training Minorities and Youths

Provides descriptions of advertising, tuition benefits, internships, mentoring and other special activities companies have developed to recruit and retain employees.

Price: \$15 (members)
\$30 (non-members)

The Annual Business Planning Meeting

Practical suggestions and guidelines for developing an effective annual business meeting.

Price: \$15 (members)
\$30 (non-members)

Perspectives on Electronic Marketing: With Emphasis on Promotion Inside Supermarkets

First in a series of reports on implementing electronic marketing programs.

Price: \$15 (members)
\$30 (non-members)